

**MINUTES**  
**LEGISLATIVE FINANCE COMMITTEE**  
**October 3, 4 and 5, 2005**

Representative Luciano “Lucky” Varela, chairman, called the legislative Finance Committee (LFC) meeting to order on Monday, October 3, 2005, at 8:30 p.m..

The following LFC members were present on October 3:

Representative Luciano “Lucky” Varela, chairman, Senator Ben D. Altamirano for Joseph Fidel, vice chairman, Representatives Nick Salazar, Rhonda King, Jeannette Wallace, Brian Moore, Edward Sandoval for Donald Whitaker, Henry “Kiki” Saavedra, Sandra Townsend and Senators Shannon Robinson for Pete Campos, Phil Griego, Senator Carroll Leavell for Sue Wilson Beffort, Joseph Carraro, Tim Jennings, Lee Rawson, and John Smith.

The following LFC members were present on October 4:

Representative Luciano “Lucky” Varela, chairman, Senator Ben D. Altamirano for Joseph Fidel, vice chairman, Representatives Nick Salazar, Rhonda King, Jeannette Wallace, Brian Moore, Edward Sandoval for Donald Whitaker, Henry “Kiki” Saavedra, Sandra Townsend and Senators Cisco McSorley for Pete Campos, Senator Shannon Robinson for Phil Griego, Senator Carroll Leavell for Sue Wilson Beffort, Joseph Carraro, Tim Jennings, and John Smith.

The following LFC members were present on October 5:

Representative Luciano “Lucky” Varela, chairman, Senator Shannon Robinson for Joseph Fidel, vice chairman, Representatives Nick Salazar, Rhonda King, Jeannette Wallace, Brian Moore, Edward Sandoval for Donald Whitaker, Henry “Kiki” Saavedra, Sandra Townsend and Senators Phil Griego, Senator Carol Leavell for Sue Wilson Beffort, Joseph Carraro, Tim Jennings and John Smith.

### **Insurance Department, Public Regulation Commission Performance Audit**

Jonathan Lee, LFC, performance auditor, presented a report titled, “Public Regulation Commission, Review of Management Practices of the Insurance Division.” The first topic covered insurance company examination procedures. He found that examinations seem to be of adequate quality, but the division lacks adequate controls and internal written procedures regarding the use of contractors to perform exams. The auditors found one contract examiner received almost all of the examination business, 87 percent of examinations since 2003. This contractor has been paid over \$10 million for the work he has done since 2003. Contract examiners are not selected via competitive request-for-proposal process and are not required by law because, by statute, examination expenses are paid by the insurance companies examined. The selection process to choose contractors is not documented. Research shows that some states commonly use contract examiners, and other states exam expenses are paid by insurance companies – request-for-proposal process is used by other states. This predominantly-used contract examiner is related to an insurance agent, and the contractor has examined companies that his family member represents as an agent. The Insurance Division has language in contracts regarding the avoidance of conflicts of interest but does not require disclosure of specific companies for which contractors may have a conflict of

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interest. While Mr. Lee found nothing to suggest that the contractor was influenced by this relationship, he took note of this relationship.

Further, Mr. Lee said auditors found compensation paid to contractors is higher than guidance provided in law. The National Association of Insurance Commissioners suggests an hourly rate for the examiner-in-charge of approximately \$43/hour while New Mexico pays \$116-\$155. The manner in which the New Mexico hourly rates were determined is not documented. He informed the committee that companies pass along their operating costs to their policyholders, so New Mexico consumers may be paying for this high contractor compensation in the form of higher premiums. The auditors recommend that PRC develop internal, written procedures that formalize and clarify the working relationship with contract examiners – including the selection process, prohibitions against conflicts of interests and full disclosure of potential conflicts, and compensation; institute the request-for-proposal process, to open up examination work to competitive bidding and spread the examination work among more contractors; rotate examination assignments. He stated that having more contractors will help to ensure that if a contractor has a potential conflict with a particular insurance company, there are other contractors who can perform the examination without conflict; to comply with contract examiner compensation language in law, or if the law is not practical for conditions in the marketplace, take action to have statutes revised.

Mr. Lee said the review also looked at how the agency handles complaints and auditors found complaints are handled by two divisions within Public Regulation Commission – the Insurance Division and Consumer Relations Division. The structure is set in law, but the two divisions' roles somewhat overlap, the relationship between the two divisions is strained, and there has been some action taken towards developing a memorandum of understanding between the two division. This structure leads to some issues regarding consistency and efficiency in complaint-handling.

The review found inconsistency and inaccuracy in the complaint database. In some cases, a consumer's question was treated as a complaint. In addition, the agency manually analyzes the complaint data because the database has limited report functionality with each division involved in handling complained failing to coordinate their efforts.

Mr. Lee said complaint analysis should be a key tool because complaints are the voice of the consumers. Analysis is important to making decisions based on examinations by insurance companies, therefore, the examination process is weakened without thorough and reliable complaint analysis.

Mr. Lee said New Mexico consumers cannot get aggregated data on complaints filed against insurance companies or file complaints over the Internet, services available in many other states. In addition, on-line information is available only in English.

Lee said complaints related to Public Regulation Commission employees were handled with a level of care above that of other complaints. Some statutorily-required complaint reports were not completed. His report recommends all complaints be handled in a consistent manner that is seamless and efficient. Toward achieving this, he also recommended that current operating structures be analyzed to consider if statutory revisions are needed to clarify or revise the roles that the Insurance Division and the Consumer Relations Division have in complaint-handling; that PRC maintain a database of accurate and complete complaint data that allows for useful analysis; and that analysis be performed regularly on all complaints so that this information can be provided by the company to consumers over the Internet. He also suggested that a couple of other recommendations would be to provide consumers with the option to file complaints on-line and information be provided over the internet in Spanish.

Mr. Lee explained that states vary in regulation of insurance rates, from restrictive to non-restrictive approaches. In New Mexico's restrictive environment by law, almost all rate requests must be approved prior to being implemented, placing a high administrative and processing burden on PRC staff.

Mr. Lee indicated that from an analysis of 1400 property and casualty rates filed, all were reviewed by the Insurance Division and the analysis showed that only 1 percent was disapproved. This leads to the question of the effectiveness in reviewing all rate requests, whether for a 1 percent change or a 25 percent change in rates

The LFC audit staff recommends an alternative approach that is more and stated that some states have adopted what is called "flex-rating." Rate change requests within a certain percentage are not subject to review; in this way only rates beyond an acceptable threshold are reviewed. A targeted approach focuses state resources on rate changes that could have the highest impact on consumers. Flex-rating is best suited to insurance lines with sufficient marketplace competition. The marketplace is able to self-regulate to some extent and government intervention is less critical. The National Conference of Insurance Legislators has developed a model law for states to adopt flex-rating, and some states have adopted their own flex-rating laws.

Mr. Lee said the Insurance Division collected approximately \$165 million in licensing fees and taxes in FY05. By far, the largest component was insurance premium taxes at approximately \$144 million.

Insurance company premium information contained in a database is not reliable. Without the use of a reliable database, staff has to review payments received for adequacy against company premium information contained in paper documents. It is a manual, time-consuming procedure. For past due amounts, in cases when manual analysis shows the payment received is insufficient, staff members individually send out, and self-track, payment request letters to insurance companies. Therefore, these past due amounts are not centrally tracked. This bureau will process approximately 11,000 payments in a given year. The audit recommends eliminating manual procedures and automating procedures regarding fee processing, past due tracking and collecting, and processing refund requests to increase efficiency and to centrally track and report on past due amounts.

## **Legislature Review of General Services Department Rate Proposals for FY07**

David Hadwiger, LFC fiscal analyst, stated that the actuarial study of the risk funds managed by the General Services Department (GSD) shows an actuarial deficit for FY05 of \$87 million. In the last two years, estimated outstanding losses have increased 47 percent, after being flat for the preceding 10 years. Mr. Hadwiger advised that in 2005 legislative session the Department of Finance and Administration recommended budgeting fund balance for motor pool, transportation, and communications. The FY06 rates for these programs have not been adjusted to implement the adopted budget.

In response to Chairman Varela's question on what is the appropriate level of cash balances and reserves, Mr. Hadwiger stated that there is no state policy as to whether there should be enough cash to cover all of the estimated actuarial estimated outstanding losses. Mr. Hadwiger contacted six western states and spoke with their risk managers and learned that out of the six states, only two of the states maintain in reserves a sufficient amount to cover of all estimated outstanding losses. The other four states maintained a balance anywhere ranging from \$1 million to \$20 million. Washington maintains a balance equal to 50

percent of the estimated actuarial outstanding losses in Washington. Oklahoma and Utah fully fund estimated outstanding losses; however, in each state, the required fund balance was under \$40 million because they have low tort caps.

In response to Chairman Varela's question on what GSD is doing to address increasing losses, Edward Lopez, secretary, GSD, indicated GSD does a root cause analysis to determine causes of liability, then they contact agency directors and offer risk-prevention training.

There was a discussion of the need to build up fund balances in risk reserve funds. Representative Varela asked about using the surplus to shore up reserves. Mr. Lopez stated that, since FY99, GSD has been legislatively authorized to collect \$189.8 million in risk premiums to pay claims totaling \$310.9 million. There has been a tendency to undercharge the University of New Mexico Hospital. UNMH is still not being charged for what its loss history indicates it should be charged. He has not yet met with the governor on all his budget requests. He observed that there is an unfortunate tendency to underfund risk reserves because the money is being used for other things. Mr. Lopez indicated concerns that agencies divert GSD rate appropriations to other purposes.

Chairman Varela asked about taking another look at budget adjustment authority at GSD, indicating that, when the Legislature collapsed line items into categories, it inadvertently allowed agencies to manipulate budgets and reduce transfers to GSD.

Mr. Abbey stated that LFC and DFA use similar numbers in setting risk rate requirements for agencies.

Mr. Hadwiger stated that there is a problem with GSD reports of fund balance expenditures. GSD consistently reports expenditure of the fund balance at sometimes twice that of the actual decline in the balance. In some years, GSD reports expenditure of fund balances when cash balances actually increase. Mr. Lopez explained that fund balance can be viewed as encumbered money. In the insurance and claim business, reserves are estimated at what the state might be liable for if there's a settlement or loss in a lawsuit.

Mr. Abbey replied that every agency uses the GSD rate request to make budget recommendations and there is a rate proposal on the table but it might not have the support of the executive and Legislature. He indicated that Cathy Fernandez met with DFA Secretary James Jimenez and Deputy Secretary Dannette Burch and asked Secretary Jimenez to direct his staff to work with our staff to try to work towards some common ground.

Roy Soto of the Office of the Chief Information Officer said federal auditors found problems with the structure of information services charges. A study funded by the Legislature will be completed soon that will bill these costs appropriately. Mr. Soto indicated that his office is overseeing the rate review for the Information Systems Division program. The report shows in-depth analysis of the methodology currently being used and methodology on how to structure and adjust rates in the future. His agency will recommend reducing the billing categories for services from 49 to 24. Some of the services are not needed any more and some need to be redefined so that they are understood better by the client. The new process should help with the budgeting and that there is plenty of time to come up with what the ISD rates should be.

Mr. Abbey indicated that LFC staff will be working on a plan on all FY07 GSD rates and seeking agreement with GSD.

## **Welcoming Remarks**

Joyce Ice, director of the International Folk Art Museum, invited the legislators to tour the museum. She said legislative support is essential to the museum's mission.

## **State Agency Program and Measure Changes**

Mr. Jimenez of DFA said Governor Richardson's performance and accountability project is consistent with the goals of the Accountability in Government Act (AGA). The project goals are to ensure taxpayer dollars are spent wisely, require accountability, and identify necessary steps to achieve results and focus on what is important to the citizens of New Mexico. However, he noted the natural tension between the executive and legislative branches and said the Legislature's policy goals will be different from the governor's policy goals.

Secretary Jimenez said the executive's seven proposed performance and accountability contracts are organized around important policy areas: making schools work, promoting and growing in New Mexico, a safer New Mexico, a healthy New Mexico, protecting and promoting New Mexico's environment, services for New Mexicans, and managing state resources. Each contract identifies significant policy goals, specific tasks required to achieve the goals, measures of the benefits to the citizens of New Mexico, and action steps for producing results. Someone from the governor's staff was involved in development of each contract. He noted the contracts require collaboration across agencies. He said the executive performance and accountability contracts were specifically tailored to achieving a policy agenda focused on outcomes.

Secretary Jimenez stated the executive will hold agencies accountable for accomplishing tasks. With respect to the AGA quarterly performance reports, Secretary Jimenez noted agencies will be more focused on results for citizens. He noted, for example, quarterly performance reporting for the Public Education Department includes tracking the percentage of audit findings resolved and the test scores of fourth graders. He said agencies will track progress despite data limitations; for example, 10 of 18 key measures for the General Services Department can only be reported on an annual basis therefore, GSD will make periodic reports on activities. Secretary Jimenez concluded that the extent of performance measure alignment varies by agency. He said positive working relationships will further efforts to align measures.

Arley Williams, LFC principal analyst, briefly reviewed the staff brief on AGA efforts this year. With respect to the executive performance and accountability contracts, Ms. Williams noted the contracts represent significant time and effort of the executive branch and were developed exclusively by the executive branch. In some cases, the contracts include performance measures sought by LFC for several years. Reporting mechanisms for activities and performance targets are not clear. In certain areas, activities and roles of agencies in carrying out specified activities and contributing to the achievement of performance measure targets are not transparent. The AGA timeline reflects these proposals were received too late to be incorporated into agency measures required by the Legislature under the Act. Agencies may need clarification that a new set of measures is now required in addition to those currently reported under AGA. Future staff efforts may be needed to align agency measures required by the Legislature with measures proposed in the executive contracts. Ms. Williams noted LFC staff prepared a brief summary analysis of performance measures relative to those currently reported by key agencies pursuant to the AGA, and staff will develop a more thorough analysis to report back to the committee.

Representative Varela opened the floor up for questions. Representative Varela noted the discussion of a natural tension between the executive and Legislature is more of a difference of opinion. He noted the Legislature has been behind the administration for three years in terms of funding, and the executive is now expected to start showing results.

Several members questioned the use of the term “contracts” and asked for details on who will be held accountable and how non-compliance would be addressed. As well, Representative King discussed the need for flexibility and consideration of the Legislature’s priorities.

## Miscellaneous Business

### **Approval of August LFC Performance Review Subcommittee and LFC Audit Information Technology/Capital Subcommittee Reports**

Representative Varela moved to adopt the report, Senator Jennings seconded the motion, and it passed with no objection.

**Approval of Amendments to LFC Policy and Procedures Manual**. Representative Varela moved to adopt the amendments to the manual, Representative Moore seconded the motion, and it passed with no objection.

## **Review Staff Briefs on Agency Quarterly Performance and Capital Outlay Management**

**Higher Education** Linda Kehoe, principal LFC analyst, presented highlights of a report regarding appropriations, unexpended funds, and funding issues for post-secondary institutions. The Legislature appropriated \$316.5 million for higher education and special schools between 1998 and 2005. Of the appropriations made between 2000 and 2004, \$163.5 remains unexpended. Four-year institutions indicate their major infrastructure problem is deferred maintenance and renewal. Potential funding sources that may be brought to the Legislature in 2006 by institutions of higher education include revival of 2005 legislation that proposed imposing a statewide property tax levy for the purpose of replacing and renovating buildings for the facilities or asking the Legislature to consider authorizing the senior severance tax bond "sweep" dedicated to the back-log of maintenance. Other options under discussion are funding building repair and replacement at 100 percent, or appropriating one-time sizeable amounts from severance tax bonds or nonrecurring general funds.

In response to a question from Representative Varela, Ms. Kehoe indicated the Capital Outlay Unit of the Department of Finance and Administration has reconciled all capital outlay appropriations for both vouchering and non-vouchering agencies. However, Ms. Kehoe did not know exactly what the Capital Outlay Unit is doing for oversight of the agencies or what the unit is doing to expedite the expenditures of aged unexpended funds.

Representative Saavedra moved that the committee ask Secretary Jimenz to appear before the committee the next morning to brief the committee on the responsibilities of the Capital Outlay Unit and what the staff is doing to expedite aged capital outlay appropriations. The motion was approved.

**Environment Department** Ron Segura, LFC analyst, reviewed the status of the department’s capital outlay projects.

## **Children, Youth and Families Department (690) Preview of the FY07 Budget Request**

Mary Dale Bolson, secretary, Children, Youth and Families Department (CYFD), said the department's general fund request of \$159 million is a 10.11 percent increase from the FY06 operating budget. The total budget of \$342 million is a 3.36 percent over the FY06 operating budget and funds 2,057.1 FTE and assumes a 5.64 percent vacancy rate.

Secretary Bolson said neither the costs associated with the Joseph A. consent decree nor the pre-kindergarten program are reflected in the department's request for recurring appropriations.

Secretary Bolson said the cost of the General Service Department premiums increase, roughly \$2.2 million, is also not in the operating budget and, if counted as a recurring cost, the adjusted FY07 general fund request growth is really only 5.67 percent.

Secretary Bolson said the budget increase request for juvenile justice services is \$3.7 million to maintain services at current level. The break down of that is personal service for \$2.7 million to fund current FTE assuming a 6 percent vacancy rate, and contractual services at \$1million to fund medical and intensive psychiatric services.

David Abbey sets up a meeting on Thursday with Secretary Bolson and Senator Altamirano and all committee members are invited.

Secretary Bolson said federal revenue for the Protective Services Division will decline significantly in FY07 because of changes in federal reimbursements for targeted case management. The FY07 general fund budget increase request of \$3.7 million would maintain services at current levels.

Senator McSorley stated the department is working on a very difficult situation up in the boys' school in Springer and is negotiating with the American Civil Liberties Union over living conditions at the juvenile detention facility. He said he hoped Secretary Bolson could reach a settlement with the organization to avoid litigation costs. Secretary Bolson said the issues include solitary confinement for children and she has had staff ask her for more food for the children.

Representative Varela stated that it should have never gone to that level.

David Abbey introduced Charles Sallee, LFC performance auditor, and suggested the chairman of the Audit Subcommittee move to assign Mr. Sallee to look at the variations the chairman is talking about in terms evaluating the decisions about configuration of facilities to give our members a commentary on that or how to achieve resolution of the litigation that involves the ACLU, management case ability, advocacy funding, and other issues

Representative Saavedra moved for the assignment, Representative Sandoval seconded it, and it passed with no objections.

Secretary Bolson said for the last three years CYFD has received the national standards for moving children from foster care to adoption with in 24 months and that is a national measure. She said the department continues to have problems keeping social worker positions filled. She said New Mexico

social workers are paid less than those in other states. Representative Saavedra pointed out his 2002 bill which added funding for social workers and suggested something like three-tier pay increases.

Secretary Bolson said a new performance measure on the percent of adult victims receiving domestic violence services who are living in a safer, more stable environment as measured by the domestic violence assessment tool and another new measure on percent of adult victims receiving domestic violence services who show improved client competencies in social living, coping, and thinking skills as measured by the domestic violence assessment tool need to be improved and will with the extra domestic violence appropriations in SB190.

Secretary Bolson stated FY07 strategic plan continues to integrate executive and legislative initiatives

## **Miscellaneous Business**

**Approval of Contracts.** Representative Sandoval moved to adopt the contract for Lou Baca, Representative Moore seconded the motion, and it passed with no objection

## **Department of Public Safety (790) Preview of FY07 Budget Request**

Cabinet Secretary John Denko said the Department of Public Safety (DPS) compensation package for the commissioned officers will be \$6.4 million with average increase of 17 percent of the State Police and 18 percent for the Motor Transportation and Special Investigation divisions. DPS estimates it will have a shortfall in fuel of \$1.5 million in FY06. Secretary Denko said the agency's request also includes funds for information technology projects, including mobile data units for patrol cars, and facility rewiring to stabilize networks, and for extending the authorization to expend special appropriations critical to reducing the backlog of criminal background checks. In FY05 contractors were able to enter 41,371 criminal fingerprint cards into our Criminal Justice Information System; 10,747 final dispositions were entered into that system, 1,765 photographs were scanned into the system, 550 photographs filed, and 4,912 criminal histories updated. In FY05, 127 DNA cases were completed with special appropriations and additional laboratory equipment has been placed in both the northern and southern forensic laboratories.

Secretary Denko said the department will ask for legislation to increase the fees for processing background checks to fund operations in the Law Enforcement Records Bureau and is exploring the need for legislation to address the rapidly growing costs for communications circuits connecting law enforcement agencies with the DPS headquarters.

Secretary Denko said the department is proposing consolidating its five programs into three – law enforcement, program support, and emergency services and homeland security – with one under each deputy secretary. Deputy Secretary Roxanne Knight said DPS tracks eight key measures for quarterly reporting and is requesting that its key measures and HB2 measures be made the same..

Deputy Secretary Knight request an FY07 general fund base budget of \$76.2 million and an expansion of \$250 thousand from the general fund for continuation of the Drunk Buster 800 hotline, so that citizens can call and report suspected drivers under the influence. This equates to a 2.1 percent increase over the FY06 operating budget of \$74.9 million. DPS is requesting full budget adjustment authority in each fiscal year as well as changes to allow the non-reversion of training academy fees for the Law Enforcement

Academy, and non-reversion of revenue generated from criminal history background checks for use in staffing the Law Enforcement Records Bureau. The demand for the background checks continues to grow and the department could process these more quickly with staff available 24-hours, seven days a week.

Ms. Knight is asking for \$3 million for replacement of New Mexico Law Enforcement Telecommunications Systems, \$500 thousand for the second and final phase of the current DPS rewiring project, \$2 million for I-AFIS, the integrated automated fingerprint identification system expansion project, and \$382 thousand for the inter-branchy criminal justice information sharing project.

Ms. Knight said the department is requesting \$6.1 million for the replacement of 267 vehicles in our fleet, \$825 thousand for a security and fire suppression system at Santa Fe headquarters, \$9.3 million for a new port-of-entry station at Lordsburg, \$5.1 million for a new State Police district office in Las Vegas, \$5 million for a new State Police district office in Las Cruces, \$95.2 thousand for equipment and furniture for the expansion of the Law Enforcement Academy, \$9.9 million for a new port-of-entry station at San Jon, \$1.2 million for expansion of the State Police district office in Albuquerque, \$2 million to replace or purchase new message boards at Gallup, San Jose, Raton, Anthony and the Lordsburg ports of entry, and \$4.9 million to renovate the existing dormitory and kitchen.

Responding to Representative Varela, Mr. Denko said he considers a union-generated survey that concluded officers were unsatisfied with department leadership invalid but the department is taking the information seriously. He said the chief of the State Police has looked very carefully at the results and is trying to address those with the most credence.

## **Special Requests**

The special hearing was scheduled so that individuals who rarely have an opportunity to address the LFC could present information on special needs and requests: Center of Civic Values Program/Mock Trials, Scott Scanland; Medicaid Coalition, Ellen Pinnes & Ruth Hoffman; Disability Coalition, Jim Jackson, Executive Director, Protection & Advocacy System; Telehealth Commission, Mark Duran, Chairman; Treatment of Hepatitis C, ECHO Project, Dr. Sanjeev Arora, M.D.; New Mexico Earl Childhood Alliance, Kristen Sharp, Baji Rankin; Association of Developmental Disabilities Community Providers, Anna Otero-Hatanaka, Executive Director; New Mexico Voices for Children, Bill Jordan; Family Infant Toddler Inter-Agency Coordinating Council, Jane Larson, Chair; Rachel Porche, Family Infant Toddler Inter-Agency Coordinating Council, Vice-Chair; Center on Law and Poverty, Gail Evans, Legal Director, Kitchen Angels, Tony McCart

## **Overview of FY06 Health and Medicaid Budgets**

Pamela Hyde, secretary, Human Services Department, said Medicaid costs continue to increase, even though during 2005 the actual numbers of persons enrolled declined. Ms. Hyde said FY07 Medicaid projections produced on September 1 show it would take \$25 million, just to keep the program precisely as is, with some enrollment growth. Projections for September 1 donot include any provider pay increases, additional waivers, or program growth.

Ms. Hyde said the costs for FY05 are still coming in. The FY06 projection is based on FY05 expenditures. Current projection shows little to no remaining general fund dollars for FY05 but the department does not expect to need supplemental funding.

Ms. Hyde said federal legislation would limit the loss of federal dollars; if that bill was to go through the federal level New Mexico would be one of the major beneficiaries. In the last two years combined, New Mexico has lost \$140 million in federal money, just from a lowered federal matching rate.

Carolyn Ingram, director, Medical Assistance Division, said the State Coverage Insurance (SCI) program implemented in July is open to adults 19 through 64 years of age, employers who have not provided insurance to their employees in the last 12 months and uninsured employees with family incomes up to 200 percent of the federal poverty level. As of October, about 2,000 enrollees are either in the system or receiving services or going through the process of getting enrolled and paying their premiums.

Responding to Representative Varela, Mark Weber, LFC analyst, said forecasting Medicaid costs has been complicated by changes in the administration of Medicaid. He said the agency's request includes no provider increases, even though reimbursement rates have not been increased for two years. He said the department has also assumed no increases for two Medicaid programs that provide in-home services to clients who might otherwise be in nursing homes. The Medicaid projections included in the FY07 request assume a total increase of 2.46 percent for the department with total spending at \$2.59 billion. These percent increases are far less than the 15.8 percent increase recorded in FY04 and down almost half from the FY05 rate of 5.2 percent.

## **MISCELLANEOUS BUSINESS**

**Informational Items**. Mr. Abbey presented the BAR report, the September Cash Balance Report, the LFC Budget Status Report and the LFC Audit Work Plan for information items to the committee.